

# **COUNTY OF MCHENRY**

Woodstock, Illinois

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended November 30, 2014

# COUNTY OF McHENRY

## TABLE OF CONTENTS

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	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
Communication of Other Control Deficiencies, Recommendations, and Informational Point to Management That are Not Material Weaknesses or Significant Deficiencies	
Prior Year Points	2 – 3
Decentralized Cash Collections	4
Required Communications by the Auditor to Those Charged with Governance	5 – 8
Management Representations	

**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS  
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

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To the Members of the Board and Management  
of the County of McHenry, Illinois

In planning and performing our audit of the financial statements of the County of McHenry as of and for the year ended November 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

The County of McHenry's written response to the comments identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the management, the County Board, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Chicago, Illinois  
May 8, 2015

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS,  
AND INFORMATIONAL POINT TO MANAGEMENT THAT ARE NOT  
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

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## **PRIOR YEAR POINTS**

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### ***DIVISION OF TRANSPORTATION RECEIVABLES (FROM NOVEMBER 30, 2012 AUDIT)***

One individual in the Division of Transportation department is responsible for preparing and sending invoices, monitoring outstanding receivables, collecting payments, maintaining the receivables system, and depositing collections with the County Treasurer's office. Having one person responsible for all of these functions does not allow for adequate segregation of duties. We recommend the County determine how to further segregate these responsibilities or implement additional monitoring controls over these critical areas.

#### ***Current Year Status***

As reported to you for the 2013 audit, the Division of Transportation (DOT) department revised its cash collection procedures to segregate collections from invoicing and maintenance of their receivable system. However, the DOT has not established a control for the preparation and review of the revenue reconciliation between the DOT's financial system and the County's financial accounting system to ensure that all deposits are correctly recorded.

#### ***Management's Response***

The past staffing levels at the Division of Transportation was insufficient to address this finding completely. While making some changes internally where it could, the Division of Transportation still sought approval for additional staff from the County Board to address the finding further. The County's budget for FY 2015 did include a new Accounting Coordinator position for the Division of Transportation. This position was filled on March 30, 2015. As this new person is trained in the accounting procedures of the County, the Division of Transportation will work with the County Auditor to establish new control procedures utilizing this newly filled position.

### ***PURCHASING PROCESS (FROM NOVEMBER 30, 2009 AUDIT)***

Since the 2009 audit, we have recommended that the County consider implementing certain best practices in regards to purchasing in order to standardize procedures throughout the County and improve controls over this critical area. These recommendations have included:

- > An approval trail should be required for creation, modification, and cancellation of purchase orders. There should be clear guidance on when approval is required (dollar amount threshold and who should be designated with approval authority). Guidance should also be given to County staff on when a purchase order should be created, modified or cancelled.
- > In addition to requiring an approval trail, the County should identify the types of documents that should be maintained for each purchase order (such as bid results, contracts, board approval, etc.). The County policy should also indicate which department has responsibility for maintaining these documents.
- > Guidance should be given to employees on the dollar amounts to be assigned to a purchase order. For example, should the purchase order be issued for the amount of an invoice, the amount of the project, or the amount to be spent with a vendor for the fiscal year?
- > To monitor the usage of the purchase order system, the County could consider implementing a tracking mechanism to determine the volume and frequency of purchase orders. A useful report may include the number and dollar amount of purchase orders created, modified and cancelled by department during a given period.
- > The County should develop a purchasing manual which would provide instruction to employees on how to navigate the purchasing process within the County. Such a document would provide County staff greater understanding and consistency in implementing the legal requirements contained in the purchasing ordinance on a daily basis.

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## PRIOR YEAR POINTS (cont.)

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### *PURCHASING PROCESS (FROM NOVEMBER 30, 2009 AUDIT) (cont.)*

- > For certain areas where services or goods are commonly procured, the County has entered into cooperative purchasing agreements with vendors. The concept behind these agreements is to take advantage of pooled purchasing efforts with other governments to secure more favorable pricing. While these cooperative purchasing agreements are commonly used, are advantageous to McHenry and other counties throughout the state, and specifically allowed within Article 10 of the Purchasing Ordinance, they do not always guarantee the best price or desired products. We recommend purchasing periodically seek additional competitive bids for these types of purchases to assure that the best price and product is still being obtained when compared to the cooperative purchasing agreements.
- > For items purchased in excess of \$500, there are numerous exceptions as to when the County's purchasing ordinance does not need to be followed. Some elected officials departments are exempt, while others are not. If there is a separate board that governs that department, use of the Purchasing Department is optional. Many other exceptions exist as well. To clarify these situations, provide training, and to serve as an internal audit tool so as to ensure compliance, we recommend a set of guidelines or a flow-chart type of approach be develop to clarify when the Purchasing Department and ordinance would apply, and when it would not. This document should be distributed to other departments and training should be provided.

#### ***Current Year Status***

The County adopted a Purchasing Ordinance on August 1, 2014 that addresses many of the above and other considerations. Training was provided to County departments as well. **This comment will be removed next year. No formal response is required.**

### *VENDOR APPROVAL (FROM NOVEMBER 30, 2009 AUDIT)*

In prior years, we noted that the County does not have a formalized process for vendor approval. There should be a formalized process and documented control to assure the validity of all new vendors.

#### ***Current Year Status***

The County finalized a Vendor Master File Maintenance Procedure Manual during 2014 which, amongst other items, established procedures for new vendor requests and the requirements necessary of requesting departments. The training provided to County departments for the new purchasing ordinance included the vendor procedures as well. **This comment will be removed next year. No formal response is required.**

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## DECENTRALIZED CASH COLLECTIONS

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Many governments collect cash at numerous decentralized locations that are separate from the primary system of accounting procedures and controls. The opportunity for theft is often higher at those locations because one person is frequently involved in most, if not all, aspects of a transaction (i.e. lack of segregation of duties).

Examples in your County that fit this situation may include the following:

- |                              |                     |
|------------------------------|---------------------|
| > Human Resources            | > Recorder          |
| > Division of Transportation | > Sheriff           |
| > E911                       | > Valley Hi         |
| > Job Training               | > Health Department |
| > Mental Health              |                     |

Management is responsible for designing and implementing controls and procedures to detect and prevent fraud. As a result, we recommend that management review its decentralized cash collection procedures and controls on a periodic basis and make changes as necessary to strengthen the internal control environment. Reviewing the adequacy of the controls is a responsibility of the governing body.

Below are example procedures and controls to help mitigate the risk of loss at decentralized cash collection points:

- > Implement a centralized receipting process with adequate segregation of duties
- > For cash collections, ensure pre-numbered receipts are being used and all receipts in the sequence are being reviewed by someone other than the person receipting the cash and receipts tie to deposits
- > Perform surprise procedures at decentralized locations (cash counts, walkthrough of processes, etc.)
- > Require regular cash deposits to minimize collection on-hand
- > Limit the number of separate bank accounts
- > Segregate duties as much as possible – the person receipting cash should be separate from the person preparing deposits and the person reconciling bank accounts should be separate from the cash collection activity
- > Perform a month-to-month or year-to-year comparisons to look for unusual changes in collections
- > If collecting from a drop box site, consider sending two people to collect the funds, especially during peak times

As always, the cost of controls and staffing must be weighed against the benefits of safeguarding your assets.



**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**

To the Members of the Board  
of the County of McHenry, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the County of McHenry as of and for the year ended November 30, 2014 and have issued our report thereon dated May 8, 2015. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED  
IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS,  
AND OMB CIRCULAR A-133***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

We considered the County of McHenry's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of McHenry's internal control over financial reporting. We also considered internal control over compliance with types of requirements that could have a direct and material effect on a major federal program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

As part of obtaining reasonable assurance about whether the County of McHenry's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about the County of McHenry's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the purpose of expressing an opinion on the County of McHenry's compliance with those requirements. While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on the County of McHenry's compliance with those requirements.

We will issue a separate document which contains the results of our audit procedures to comply with OMB Circular A-133.

To the Members of the Board  
of the County of McHenry, Illinois

#### ***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statement related to debt issues.

#### ***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you at our meeting about planning matters on February 12, 2015.

#### ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

##### ***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of McHenry, Illinois are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the County of McHenry during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

##### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts within the Valley Hi enterprise fund is based on historical data and an analysis of the collectability of individual accounts.

The estimate of the self-insurance claims liabilities, which are based on a historical claim's analysis and report prepared by the County's third party administrators.

The estimate of the other post employment benefits liability, which is based on an actuarial study.

We have evaluated the key factors and assumptions used in developing the aforementioned estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

##### ***Financial Statement Disclosures***

The disclosures in the financial statements are neutral, consistent, and clear.

#### ***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

We encountered no significant difficulties in dealing with management in performing our audit.

To the Members of the Board  
of the County of McHenry, Illinois

#### ***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

In 2014, it was discovered that a \$203,535 payable was not recorded in the General Fund at November 30, 2013. In addition, several departmental cash accounts were reported with a corresponding liability rather than revenues and expenditures for both the November 30, 2013 financial statements in the amount of \$648,918 and the November 30, 2014 financial statements in the amount of \$450,047. The net effect of these two items causes liabilities to be overstated by \$450,047, fund balance to be understated by \$445,383, revenues to be understated by \$358,424, and expenditures to be understated by \$353,760 for the current year.

In 2014, it was discovered that \$686,371 cash being held at a financial institution under the County's taxpayer identification number was not being reported in an agency fund of the County. This causes both assets and liabilities of the agency funds to be understated.

Management has determined that the effect of all of these items is immaterial to the financial statements taken as a whole.

#### ***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### ***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

#### ***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the County of McHenry that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the County of McHenry for the year ended November 30, 2014, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the County of McHenry in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the County of McHenry other than audit services provided in connection with the audit of the current year's financial statements.

To the Members of the Board  
of the County of McHenry, Illinois

***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of McHenry's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***OTHER MATTERS***

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

***RESTRICTION ON USE***

This information is intended solely for the use of the County Board and management and is not intended to be, and should not be, used by anyone other than the specified parties.

In closing, we would like to thank you for allowing us to serve you. We are very interested in the long-term success of the County of McHenry and our comments are intended to draw your attention to issues which should be addressed for the County to meet its goals and responsibilities.

This letter, by its nature, focuses on improvements and does not comment on the strong areas of the County's systems and procedures. The comments and suggestions in this report are not intended to reflect in any way on the integrity or ability of the personnel of the County. They are made solely in the interest of establishing sound internal control practices and improving the County's financial operations.

The County staff was receptive to our ideas, comments and suggestions.

We will review the status of these comments during the next audit engagement. We have already discussed the previous comments and suggestions with various County personnel and we would be pleased to discuss them with you in further detail.

*Baker Tilly Vuchow Krause LLP*

Chicago, Illinois  
May 8, 2015

## **MANAGEMENT REPRESENTATIONS**



PAM PALMER  
COUNTY AUDITOR

OFFICE OF  
**THE COUNTY AUDITOR**

McHENRY COUNTY, ILLINOIS  
2200 NORTH SEMINARY AVENUE  
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JAMES BERNIER, CPA, CPFO  
FINANCIAL REPORTING  
MANAGER/  
CHIEF DEPUTY AUDITOR

May 8, 2015

Baker Tilly Virchow Krause, LLP  
205 North Michigan Avenue  
Chicago, IL 60601-5927

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the County of McHenry as of November 30, 2014 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of McHenry and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
7. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
8. We believe the effects of the uncorrected financial statement misstatements listed here are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In 2014, it was discovered that a \$203,535 payable was not recorded in the General Fund at November 30, 2013. In addition, several departmental cash accounts were reported with a corresponding liability rather than revenues and expenditures for both the November 30, 2013 financial statements in the amount of \$648,918 and the November 30, 2014 financial statements in the amount of \$450,047. The net effect of these two items causes liabilities to be overstated by \$450,047, fund balance to be understated by \$445,383, revenues to be understated by \$358,424, and expenditures to be understated by \$353,760 for the current year. In 2014, it was discovered that \$686,371 cash being held at a financial institution under the County's taxpayer identification number was not being reported in an agency fund of the County. This causes both assets and liabilities of the agency funds to be understated.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
10. Guarantees, whether written or oral, under which the County of McHenry is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

11. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the County Board and Finance and Audit Committee or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity, other than what we have made you aware of, received in communications from employees, former employees, regulators, or others.
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.



15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

16. There are no known related parties or related party relationships and transactions of which we are aware.

*Other*

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

18. We have a process to track the status of audit findings and recommendations.

19. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

20. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

21. The County of McHenry has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

22. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

23. There are no:

- a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
- b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
- c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
- d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

24. The County of McHenry has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

25. The County of McHenry has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

26. The financial statements include all component units and properly disclose all related organizations.

27. The financial statements properly classify all funds and activities.
28. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
29. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
30. The County of McHenry has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
31. Provisions for uncollectible receivables have been properly identified and recorded.
32. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
33. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
34. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
35. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.
36. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
37. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
38. Tax-exempt bonds issued have retained their tax-exempt status.
39. We have appropriately disclosed the County of McHenry's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
40. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
41. With respect to the supplementary information, (SI):
  - a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

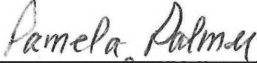
- a. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
42. We assume responsibility for, and agree with, the findings of specialists in evaluating the incurred but not reported liability and the other post-employment benefit liabilities accrued and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
43. With respect to federal award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, OMB Circular A 133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
- b. We acknowledge our responsibility for presenting the SEFA in accordance with the requirements of OMB Circular A-133 §310.b and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
- c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditors' report thereon.
- d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are administering our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to the programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.

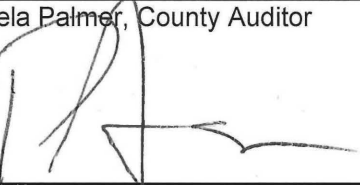
- i. We have complied with the direct and material compliance requirements except for noncompliance disclosed to you, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.
- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133 .
- u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- v. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- w. We have charged costs to federal awards in accordance with applicable cost principles.

- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- z. We are responsible for preparing and implementing a corrective action plan for each audit finding.

Sincerely,

County of McHenry

Signed:   
Pamela Palmer, County Auditor

Signed:   
Peter Austin, County Administrator